SOCIO-ECONOMIC FORECASTS

1989-1994

CITY OF EDMONTON

Prepared By:
City Forecast Committee
May 24, 1989

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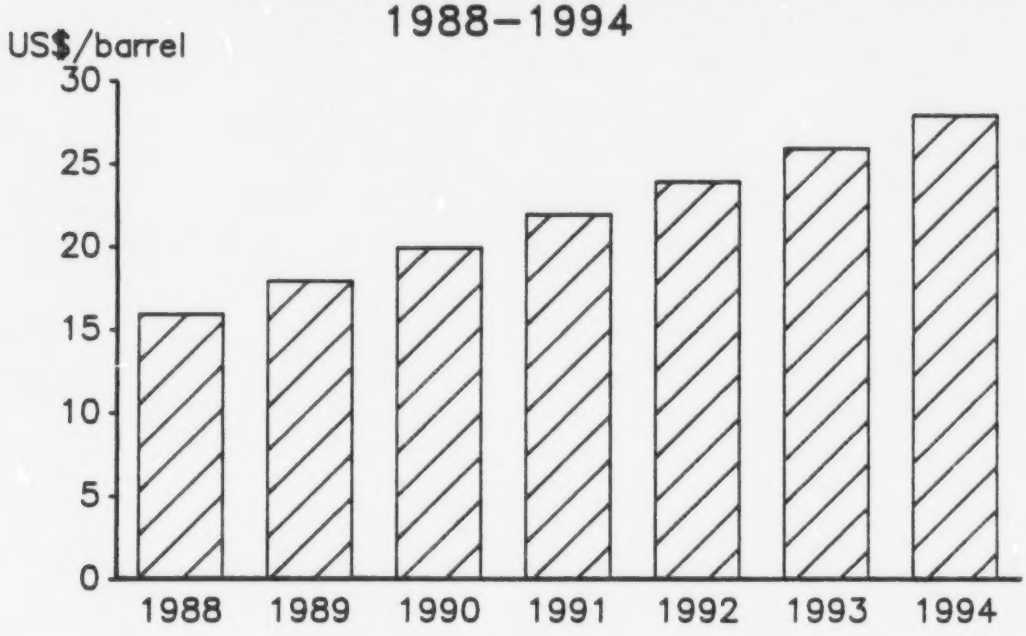
Figure 1
West Texas Intermediate Crude Oil Prices, 1988–1994



SOCIO-ECONOMIC FORECASTS
1989-1994
CITY OF EDMONTON

PURPOSE

This report provides a forecast of major economic and social indicators for the years 1989 to 1994. The forecast will be used as a guide for preparation of the 1990 City departmental budgets.

The City Forecast Committee undertakes three stages of monitoring and forecasting activities throughout the year. A full forecast report is prepared in January to be used by all departments for preparation of their five-year budget forecasts. The full report is then reviewed and updated in May for all departments to prepare their annual budgets. An update to the tables in the report is done in October for reference by the Budget Committee in their review of departmental budgets.

ASSUMPTIONS AFFECTING THE FORECASTS

Assumptions have been made for the following external factors which are considered to have the most impact on the Alberta and Edmonton economies:

1) World Oil Prices

Oil prices remained relatively weak throughout most of 1988, averaging about $US 16 per barrel for the year. Prices strengthened towards year end after renewed efforts by OPEC to restrain production. Prices have risen to over $US 20 in the first quarter of 1989 as a consequence of supply disruptions in the North Sea and Alaska. However, OPEC is expected to respond with increased production in order to maintain market share and retard this price increase. OPEC is also expected to be able to maintain a level of control throughout the forecast period, thereby preventing a major collapse in prices. Thus the forecast, in nominal US dollars per barrel, for West Texas Intermediate crude at Chicago is:

1988	$16	1992	$24
1989	18	1993	26
1990	20	1994	28
1991	22		

This represents, on average, a 4%-5% per year increase after allowing for inflation.

2) United States Economy

After the stock market crash in October 1987, the U.S. economy showed no signs of ill effects and continued to expand. The fear of overheating the economy and the weak American dollar prompted the Federal Reserve Board to raise interest rates. Consequently, economic activity will slow before it begins to improve in 1990. The forecast assumes 2% to 2.5% growth in 1989-1990 and 3% to 3.5% per year thereafter. A rebound in the US economy is based on the expectation that the Federal budget deficit will decline to the $100 billion range by the year 1991.

3) Interest Rates and Inflation

Canadian interest rates are influenced by monetary policies in the U.S.A., the relationship of the Canadian dollar against the U.S. currency and the anti-inflation stance of the Bank of Canada. Tighter monetary policy in the U.S. and the fear of rising inflation due to the very high level of economic activity in central Canada have forced the Bank of Canada to raise its rates. As a result, the prime lending rate has jumped from 9.75% in January, 1988 to 13.50% in May, 1989. High interest rates, combined with the tax increases contained in the April 26, 1989 Federal Budget, could bring about a dramatic slowdown or even a mild recession in the economy in the last half of 1989 or early 1990. However, there is a likelihood that the tight monetary policy will be relaxed as soon as signs of slowing in the economy begin to appear, possibly early summer 1989.

Imposition of the federal 9% goods and services tax to be effective January 1, 1991 will have a significant inflationary impact on consumer prices. However, real interest rates are likely to be much lower in post-1990 years than at present, largely due to favourable monetary developments in the U.S.

4) Federal Goods and Services Tax

The multi-stage goods and services tax brought down with the Federal Budget is to replace the existing federal manufactures' tax. The tax would be levied on and collected from all businesses in stages, as goods move from primary producers and processors to wholesalers and retailers and finally to consumers. Businesses are expected to pay a tax on their sales and claim a credit for tax paid on purchases. As a result, the tax is applied to the final consumption of virtually all goods and services in Canada, except basic groceries, prescription drugs, most health and dental services, residential rents, daycare service, legal aid services and educational services. The tax rate is set at 9% which is expected to increase consumer prices by 2.0% - 3.0% in 1991 above the underlying rate of inflation.

5) Canada-U.S. Free Trade Agreement

The free trade agreement became effective January 1, 1989 and has significant long term implications for Canada's competitive position in international markets. Under the agreement, tariffs and trade barriers used to protect a variety of industries, especially manufacturing, will be eliminated over a ten year period. Tariff reductions are staged so that sectors such as furniture production which have a high level of protection, will have the longest time to adjust. Other sectors, such as machinery, chemicals and paper products, will experience tariff reductions staged over the next five years. Industries such as computers and equipment and some food and beverages face immediate tariff elimination. The net result will be a more market-oriented North American economy which is seen as positive for Canadian industries with a competitive advantage (such as oil, gas and petrochemicals) and negative for industries without a competitive advantage.

Alberta is likely to realize the most long-term gain of all Canadian provinces under the free trade agreement. According to a Canada West Foundation report, 33% of Alberta's gross domestic output is produced by sectors that will benefit from the Free Trade Agreement compared to only 0.6 % in industries adversely affected by the agreement (Evaluating the Fine Print . . .The Free Trade Agreement and Western Canada, Canada West Foundation, April 1988.) The major beneficiaries will include livestock, beef and pork producers, chemical producers and refineries, forestry activity, and oil and gas producers and related services. These sectors are the driving force of the provincial economy and direct benefits from these will translate into significant gains in service industries throughout Alberta. As a result, Alberta's GDP will be 2% to 3% higher than it would have been without the agreement, up to 30,000 new jobs could be created and there will be a 3% to 4% increase in investment, stimulating further growth and additional employment.

6) Major Industrial Projects and Diversification

Several major industrial projects announced in 1988 will contribute to stronger growth and more diversification over the next five years. The $4.1 billion OSLO oil sands plant in Fort McMurray and the $1.3 billion Husky heavy oil upgrader in Lloydminister are expected to create more than 65,000 direct, indirect and induced work years over the next 8 to 10 years. Other energy projects include Shell's announcement of a $600 million development of the Caroline gas field and Nova's $1.0 billion expansion of its gas pipeline system. Both projects are heavily influenced by an increasing North American industrial demand for guaranteed access to stable energy supplies and world demand for plastics and resins for which gas is a major feed stock. These two trends are expected to spawn even more projects because the free trade agreement guarantees American access to Canadian gas supplies.

Although the energy projects are sensitive to world oil prices, several other projects were announced in industries which are relatively independent of the energy sector. Projects such as a beef processing facility in High River ($50 million), a hog processing facility in southern Alberta ($20 million), petrochemical plants in Joffre ($700 million) and Fort Saskatchewan ($850 million) and the northern Alberta forestry projects of Alberta-Pacific Forest Industries ($1.3 billion), Daishowa - Peace River Pulp Company ($500 million), Procter & Gamble Cellulose ($400 million), Weldwood of Canada ($420 million), Alberta Newsprint Company ($360 million) and Alberta Energy Company ($168 million) will more than offset any negative impact of low oil prices.

Over the next 5 years, investment in major projects in Alberta is expected to reach somewhere between $20 and 30 billion and create in excess of 150,000 direct, indirect and induced man years of employment in the province. A great deal of this activity will add to a more stable and diversified provincial economy.

Figure 2

Economic Growth Rates – Canada and Alberta, 1988–1994

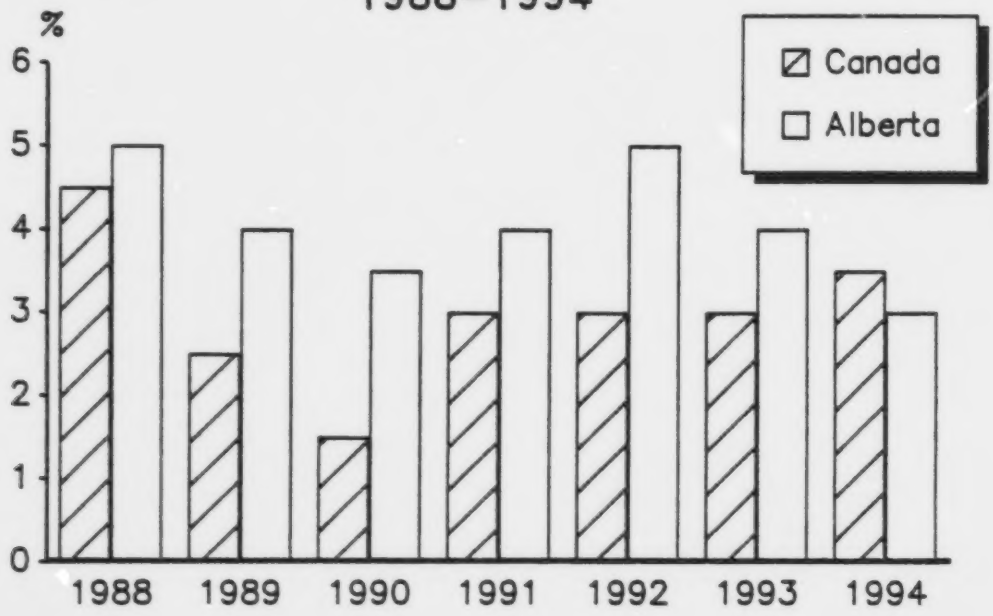
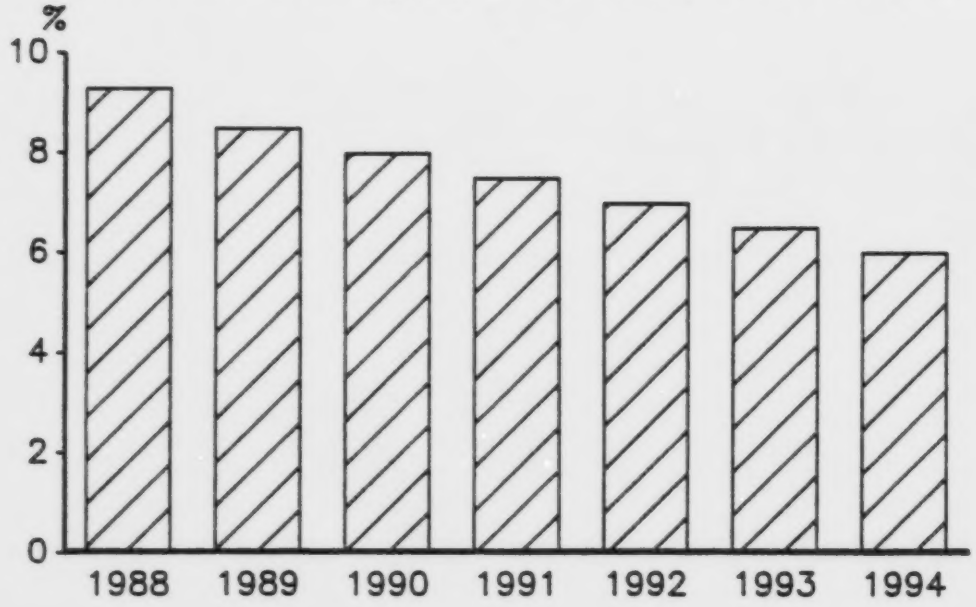


Figure 3

Edmonton Unemployment Rate, 1988–1994



FORECAST OVERVIEW

After making adjustments over the past 6 years to the volatile world oil market, high unemployment, high personal and business bankruptcies, financial institution collapses and out-immigration, the Alberta economy has finally climbed out of the doldrums. The adjustments have made most remaining and new businesses leaner and more competitive and have led to some diversification, particularly in the area of scientific research. The diversification will be further intensified as a result of several major industrial projects announced recently for the forestry sector. However, the health of the oil and gas industry is still the main driving force behind any sustained growth in the overall Alberta economy.

This forecast is based on a scenario in which OPEC will maintain a level of oil production control and prevent a major collapse of oil prices. This will allow for modest price increases as the world demand for oil increases at about 1% to 2% per year. The gradually rising oil prices, together with the expected increasing American demand for Alberta gas, are expected to renew the high level of investment activity in the Alberta oil and gas industry.

The following sections provide details of the forecasts:

1. Economic Forecasts

Canada

The growth of the Canadian economy is expected to slow gradually from 4.5% in 1988 to 1.5% in 1990 as a result of the slowing American economy, current high interest rates and the restraint on consumption from the Federal Budget. Growth will return to 3% per year for the period 1991-1994. Inflation will gradually edge up from 4.1% in 1988 to 4.5% in 1990 and then jump significantly to 7% in 1991 in response to the new national sales tax; it will return to the 5%-6% range for the balance of the forecast period. Unemployment will remain relatively high at 7.8% in 1989, falling to 7% by 1994. The Canadian dollar exchange rate is expected to be in the range of U.S. $0.81-U.S. $0.84 over the forecast period.

Alberta

Alberta's economy is expected to grow at a healthy average rate of 4% per year over the forecast period. This growth will be sustained by generally favourable conditions in all sectors of the economy, and especially in the forestry sector. As of December 1988, over $3 billion in forestry projects have been announced. In addition, a number of meat packaging and upgrading plants are being constructed now that free trade is taking effect. Oil prices appear to have stabilized and the pipeline industry is booming in anticipation of continued large increases in gas

Figure 4

Edmonton Consumer Price Increase, 1988–1994

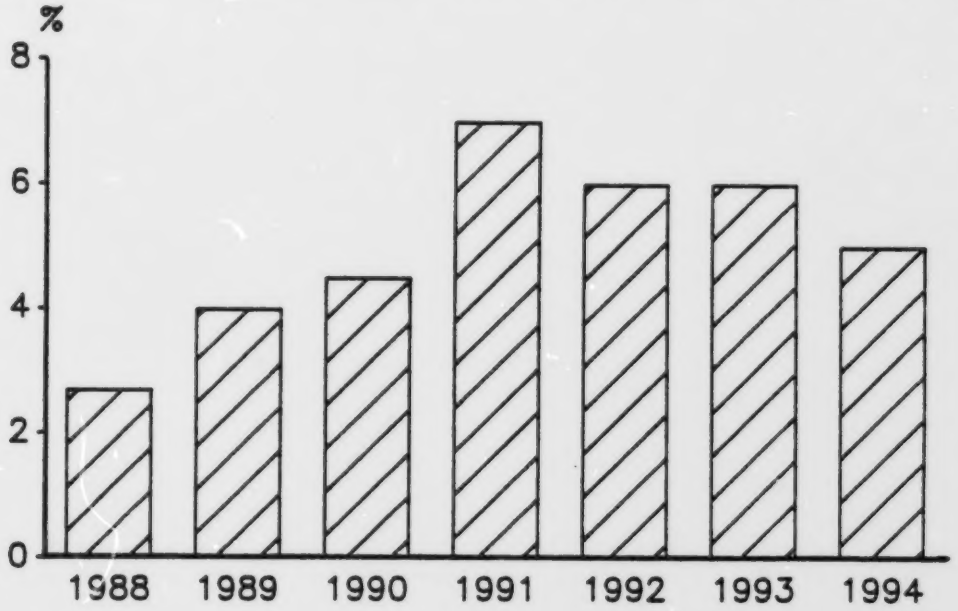
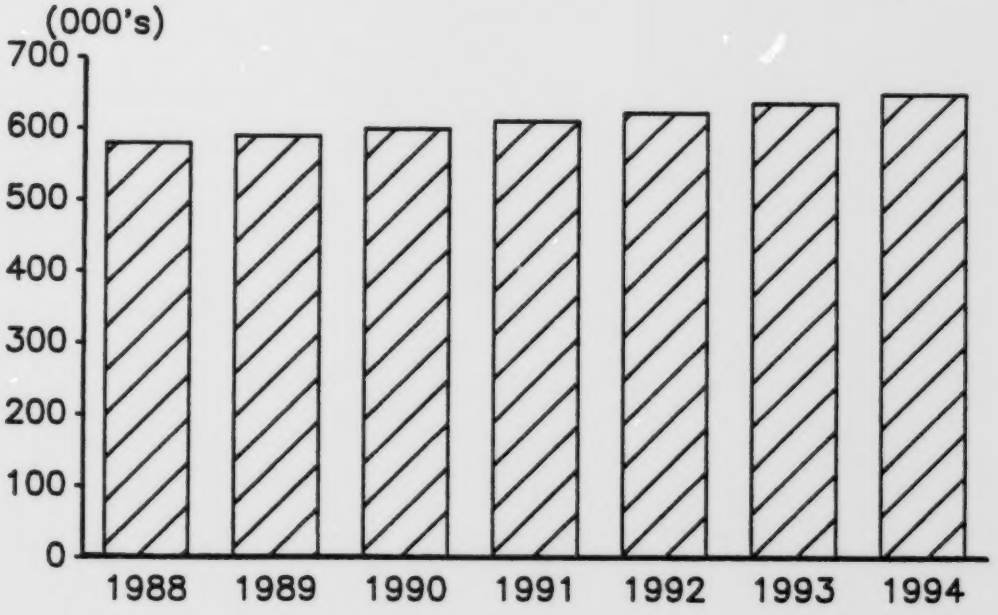


Figure 5

Edmonton Population, 1988–1994



sales to the U.S. market. Grain prices are higher and if there is no recurrence of drought, agriculture could contribute to economic growth. The Federal Budget is expected to have some short-term negative impacts. Generally, the budget is contractionary in nature, raising taxes and lowering government transfer payments and program funding. Consequently, some consumer retrenchment is expected in 1990 as disposable income declines. Tax reform is also expected to reduce consumer spending but this should be off-set by the sustainable economic growth expected in the industrial sector over the forecast period.

Under this positive economic climate, Alberta's unemployment rate is expected to drop from 7.5% in 1989 to about 6% in 1994. After losing over 100,000 people to other provinces between 1983-1987, Alberta started to gain more people through net immigration in 1988. This favorable trend is expected to continue throughout the forecast period.

Edmonton

Edmonton will follow the provincial trends over the forecast period. Both inflation and unemployment are expected to be slightly higher than the provincial averages. Inflation is expected to increase from 4.0% in 1989 to 7.0% in 1991 as a result of the new federal goods and services tax and then decline to 5.0% by 1994. Unemployment will decline from 8.5% in 1989 to 6.0% in 1994.

2. Population Forecasts

As a result of increasing positive net migration over the next five years, Edmonton's population is expected to grow at a rate of approximately 1.9% per year, increasing from 580,800 persons in 1988 to 651,200 persons by 1994. These population figures are preliminary; a revision will be made to these forecasts when the 1989 civic census data is released in August 1989.

Population will change within the City with the inner city declining relative to the suburban areas.

3. Development Activity Forecasts

Building permit values are expected to be in the range of $480 million to $580 million in 1989, compared to $465 million in 1988. Over 1990 to 1994, permit values are expected to increase at approximately 10.2% per year, reaching $780 million to $940 million by 1994; however, these totals could be influenced by the timing of several major projects.

Total City housing starts in 1988 were 2,702 units. Continued population growth through positive net migration, lower apartment vacancy rates and lower interest rates will combine to boost housing

Figure 6
Edmonton Housing Starts, 1988–1994

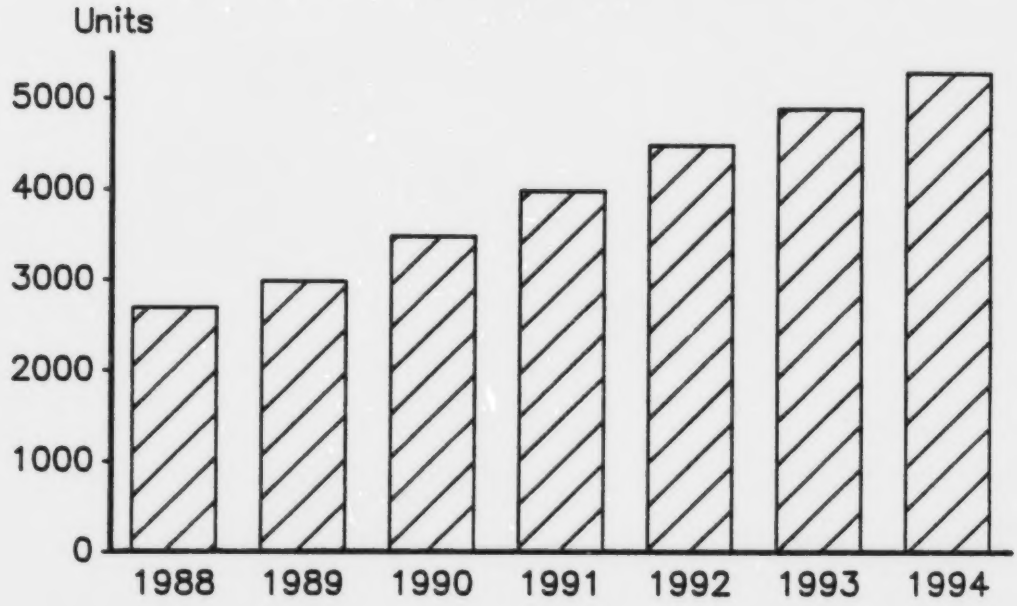
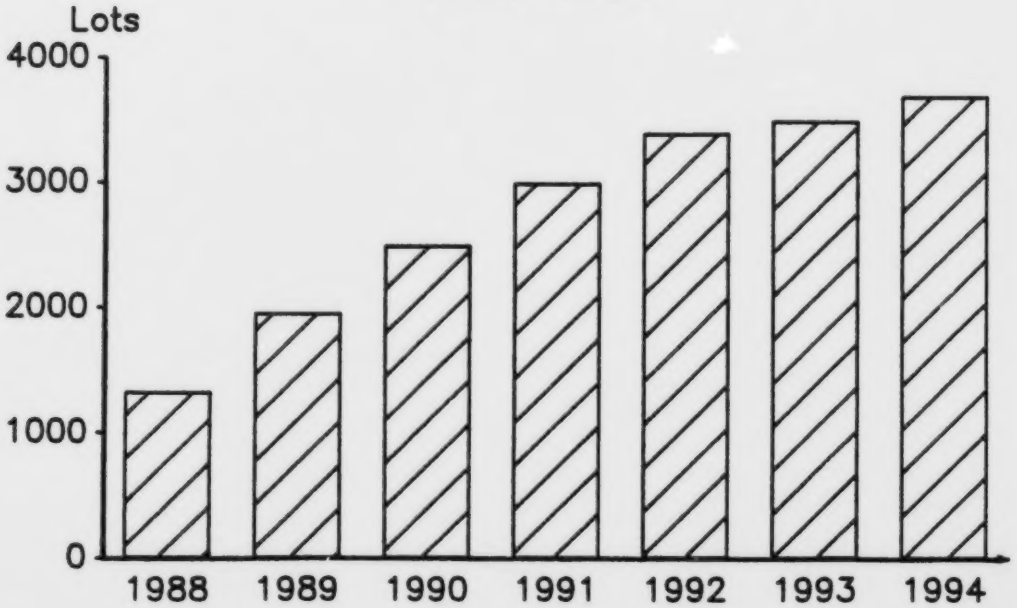


Figure 7
Edmonton Single Family Residential Land Servicing, 1988–1994



starts from 3,000 units in 1989 to 5,300 units by 1994, an increase of 12% per year.

Residential servicing in 1988 was estimated at 1,329 single family lots. Servicing is expected to increase to about 1,960 lots in 1989 and to 3,700 in 1994 in response to the increase in housing starts. In the short term, the shrinking of the serviced single family lot supply to below a two year inventory has resulted in higher lot prices. The continued reduction in inventory and reasonable demand will lead to higher lot prices in 1989 and 1990. No significant servicing of multi family lots is anticipated because of an ample supply.

Industrial servicing activity will remain low with 4 ha per year serviced over 1989 to 1994. Absorption will be 20 ha per year for the same period. The supply of serviced industrial land is large enough to meet any significant increase in absorption.

Servicing of commercial land along the major highway corridors will average 16 ha per year over 1989 to 1994.

4. Social Forecasts

Single family formations continue to occur at a more rapid rate than total family formation. In 1986, 15.14% of all families in Edmonton were headed by a single parent and by 1994 this proportion is expected to reach 17.5% of all families.

The divorce rate is expected to increase gradually to 345 per 100,000 population by 1994.

The average age of the population is increasing. Edmonton had 8.1% of its population in 1987 aged 65 and over; this percentage is expected to rise to 9.6% by 1994. Requirements for increased health and other services, as well as the recent increased political awareness and power of seniors makes this group an important one to watch in the future.

Funding cuts for some social programs contained in the Federal Budget will likely impact on service requirements at both the provincial and municipal levels.

Needs and demands will rise with increasing population. Some subgroups (e.g. working single family heads with children) will have a greater than average growth rate. Their needs for social and support services will increase even more rapidly while federal funding decreases in real terms. Provinces and municipalities may be faced with greater demands.

The following tables provide detailed economic, population and land servicing forecasts for the period 1989-1994.

TABLE 1

SELECTED ECONOMIC FORECASTS, 1989 - 1994

May 24, 1989

	Actual 1988	1989	1990	1991	1992	1993	1994
CANADA AND ALBERTA							
World Oil Prices (U.S. $/Barrel)(1)	16	18	20	22	24	26	28
Economic Growth Rate (%)							
Alberta	5.0(e)	4.0	3.5*	4.0	5.0	4.0	3.0
Canada	4.5*	2.5	1.5*	3.0	3.0	3.0	3.5
Prime Lending Rate (%)	10.8	12.0	10.5	9.5	9.25	9.0	9.0
Industry Product Prices-Canada(%)	4.3*	4.5	4.5*	7.0	6.0	6.0	5.0
Alberta Net Migration (000)	6.1*	11.0	13.0	15.0	18.0	20.0	22.0
EDMONTON							
Population (000)(2)	581(e)	591*	601*	612*	624*	637*	651*
Unemployment Rate (%)	9.3	8.5	8.0	7.5	7.0	6.5	6.0
Inflation Rate - CPI (%)	2.7	4.0*	4.5*	7.0	6.0	6.0	5.0
Average Weekly Earnings Percent Change (%)	1.1*	4.0	4.5	5.5	6.5	6.5	6.0
Vacancy Rate (%)							
Apartment (Oct.)	4.4	3.5	3.0	2.5	2.0	2.0	2.0
Downtown Office (Dec.)	15.3	13.5	14.0	13.0	12.0	10.0	10.0
Housing Starts (Units)	2,702	3,000	3,500	4,000	4,500	4,900	5,300
Building Permits							
(Current $ Millions) - Low	465	480	530	580	650	720	780
- High	-	580	660	720	790	870	940

Sources:

1. 1988 actual: Statistics Canada, Alberta Bureau of Statistics, Bank of Canada, Canada Mortgage and Housing Corporation, Colliers Macaulay Nicolls Inc., and Edmonton Planning and Development Department.
2. 1989-1994 forecasts: City Forecast Committee, May, 1989.

Notes: (1) World oil prices are for West Texas Intermediate Crude at Chicago in $US.
(2) Preliminary; a revision will be made to these forecasts when the 1989 civic census is released in August 1989.
(e) Estimate; (*) Revised from January 1989.

TABLE 2
CITY OF EDMONTON
PROJECTED POPULATION BY AGE GROUP

May 24, 1989

AGE GROUP	1988	1989	1990	1991	1992	1993	1994
0-4	46,900	47,000	47,600	47,900	48,500	49,300	49,900
5-9	39,700	41,600	42,700	43,900	44,500	44,900	45,000
10-14	33,900	34,800	36,300	37,600	39,300	41,300	43,500
15-19	36,800	35,000	34,300	34,400	35,200	36,000	37,200
20-24	59,600	54,800	49,500	45,200	41,500	38,900	37,400
25-29	71,200	71,500	70,800	68,400	65,700	61,600	57,100
30-34	61,900	65,000	67,800	70,600	72,000	73,200	73,900
35-39	46,400	49,500	52,800	56,200	60,300	64,100	67,600
40-44	35,500	37,700	40,600	43,700	45,800	48,500	51,900
45-49	28,500	29,800	30,800	32,100	34,600	37,300	39,700
50-54	25,900	26,500	27,200	28,000	28,900	30,100	31,700
55-59	24,900	25,100	25,500	25,900	26,700	27,600	28,500
60-64	21,100	21,900	22,700	23,600	24,200	24,900	25,300
65-69	17,700	18,500	19,000	19,500	19,800	20,500	21,400
70+	30,900	32,100	33,600	35,400	37,400	39,400	41,100
Total	580,900	590,800	601,200	612,400	624,400	637,600	651,200

Source: Edmonton Planning and Development Department, May 1989

Notes: (1) Figures are rounded to nearest 100
(2) These figures are preliminary; a revision will be made to these forecasts when the 1989 civic census data is released in August 1989.

May 24, 1989

TABLE 3

EDMONTON 1989 SINGLE FAMILY

RESIDENTIAL LAND SERVICING

Area Structure Plan	Forecasted Lots
Castle Downs Extension	100
Riverbend	300
West Jasper Place	560
Meadows	150
Palisades	100
Burnewood	100
Lake District	150
Twin Brooks	100
Mill Woods	250
Sub Total	1,810
Resubdivisions	120
Local Improvement	30
TOTAL	1,960

Source: Edmonton Planning and Development Department, May 1989

May 24, 1989

TABLE 4

EDMONTON SINGLE FAMILY RESIDENTIAL LAND SERVICING BY AREA, 1988 - 1994

	Actual 1988	1989	1990	1991	1992	1993	1994
SECTOR							
West	330	560	950	1,100	1,300	1,300	1,300
Southwest	288	400	550	650	700	700	700
North	456	300	550	700	750	800	800
Northeast	101	50	150	150	200	200	400
Southeast	138	500	200	300	350	400	400
Resubdivision	16	150	100	100	100	100	100
	1,329	1,960	2,500	3,000	3,400	3,500	3,700

Source: Edmonton Planning and Development Department, May 1989

See Map 1 for sector boundaries

TABLE 5

EDMONTON INDUSTRIAL AND COMMERCIAL LAND SERVICING

	Industrial	Commercial	Total
Actual[1]	(ha)	(ha)	(ha)
1988	1.6	14.2	15.8
Forecast[2]			
1989-94[3] (per year)	4.0	16.0	20.0

Sources:

1 Edmonton Planning and Development Department, Edmonton Public Works Department, January 1989.

2 Edmonton Planning and Development Department, January 1989.

3 Assumes 20 ha serviced per year, distributed as 80% commercial, 20% industrial.

TABLE 6

MAJOR PLANNED PROJECTS IN EDMONTON
(Projects Exceeding $5 Million in Construction Costs)

Project	Estimated Costs (1) ($ Million)
Cross Cancer Institute Addition	$60
Royal Alex Hospital Addition	52
City Hall	27
Northland Coliseum Addition	19
Macdonald Hotel	17
Edmonton Journal	16
Misericordia Hospital Addition	15
University LRT Station	12
Rossdale Water Treatment Plant	10
Olympia & York Phase 1A	10
Sunwapta Broadcasting	8
Edmonton General Hospital Upgrading	7
3 Apartment Buildings (18004 - 95 Ave.)	7
Horizon Village (123 St. and Jasper Ave.)	6
Canada Place	6
McKennen Senior Citizens Apartment (149 St. & 100 Ave.)	5
Apartment Building (9640 - 105 St.)	5
Apartment Building (10110 - 81 Ave.)	5

Note:

(1) For initial costs or costs of remaining phases for projects having a development permit.

Source:

Edmonton Planning and Development Department, List of Projects Estimated for 1989 and Beyond, March 1989.

Map 1

CITY SECTORS